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**Subcommittee on East Asian and Pacific Affairs and**  
**Subcommittee on International Economic Policy, Export and Trade Promotion**

**“The Case for Permanent Normal Trade Relations with China”**

**Introduction**

Chairman Hagel, Chairman Thomas, Ranking Member Sarbanes, Ranking Member Kerry, and Members of the Committee, I thank you for the opportunity to testify today on perhaps the most important international economic issue facing this Congress. As you know, the President has made it one of his highest priorities this year to work with Congress to grant China permanent Normal Trade Relations, commonly known as PNTR.

When the President submitted legislation to Congress for PNTR, he argued that the choice is clear – China’s accession to the WTO is in the fundamental interest of American security and reform in China. The economic, political, and strategic implications of this decision give it historic dimensions.

This legislation enables the United States to grant PNTR to China once it has completed its accession, provided that it is on terms at least as good as those in our bilateral agreement concluded in November 1999. In fact, the terms can only get better, as we benefit from all further concessions China makes to other countries.

It is important to keep in mind that the agreement we concluded with China is a **straight gain**. Commercially, the agreement is one-sided in our favor, in that China opens its markets to an unprecedented degree while the United States simply maintains its current market access policies. There is no down-side, only an up side for American exporters, farmers, and workers.

It is also important to keep in mind what granting PNTR to China is **not**:

- It is not about whether China will enter the WTO, which can happen in any case.
- It is not about whether Chinese producers will have access to our market. Our market is already open to China, which enjoys the same access as nearly everyone else. Not granting PNTR will not revoke this access.
- It is not an endorsement of China's record on human rights or workers rights. We will still express our disagreements forcefully, including in the UN and other international fora, with or without PNTR.
- And it is not about China's policies toward Taiwan or other strategic issues that concern us. We will continue to protect our strategic interests, with or without PNTR, and nothing in the WTO hampers our ability to do this.

Passing PNTR merely ensures that we reap the full benefits of our bilateral agreement with China and its accession to the WTO. There are three crucial advantages to the United States in passing PNTR. Let me address each one in order.

## **I. The Commercial Benefits to the United States of Granting PNTR**

First, the economic case for China WTO accession is overwhelmingly compelling. The commercial benefits of granting PNTR are significant and all one-sided for the United States. We make no commercial concessions; China makes them all.

We would get unprecedented new access to China's market for exports of American goods and services, with benefits for American workers, farmers and companies. The scope of this new access is impressive, in tariff reductions on industrial and agricultural goods, reduction in barriers to American service providers, and especially in high-tech goods and services:

- Chinese tariffs on industrial and agricultural goods will fall by 50 percent or more in the space of five years. For example:
  - Industrial tariffs on U.S. products will fall from an average of 25 percent in 1997 to 9.4 percent in 2005.
  - In the automobile sector, tariffs will fall from 80-100 percent to 25 percent by mid-2006, with the largest cuts in the first years after WTO accession. Quotas on autos will be phased out. And American auto companies will be allowed to provide auto financing for the first time.
  - Tariffs on the broad range of agricultural goods will fall by roughly one half, with larger cuts for US priority goods. The role of state trading companies will be progressively reduced, allowing for more market-based trade. This improved access will eventually result in an increase of \$2 billion a year in our agricultural exports to China, according to

USDA estimates. In addition, China has committed to eliminate agricultural export subsidies, which displace American exports to third country markets, and to reduce domestic agricultural subsidies, which also distort trade.

- Chinese commitments go way beyond tariff cuts to include the elimination or sharp reduction in a wide range of non-tariff barriers. For example, American exporters will be able to import directly into China themselves, distribute within China, and offer after-sale service in ways they never could before. While it is hard to estimate the effect of lowering these barriers, many observers think that they are critical to competing effectively in China and are at least as important as the tariff cuts. With these rights, U.S. firms and farmers will be better able to sell American-made products directly to Chinese consumers.
- China would phase out a wide range of restrictions in a broad range of services. For example:
  - China has agreed to liberalize wholesale and retail distribution services throughout China in three years.
  - In banking, China has accepted full market access for branches and subsidiaries of foreign institutions, to be phased in progressively over five years.
  - In insurance, the Chinese market will also be progressively opened over five years, with the elimination of limits on the number of licenses for foreign firms and geographic scope of operations for foreign firms. In non-life insurance, wholly foreign owned subsidiaries will be allowed two years after accession.
- Some of the biggest Chinese reduction in barriers come in the high-tech sectors. For example:
  - China will participate fully in the Information Technology Agreement (ITA), eliminating all tariffs by 2005 on computers, semi-conductors and other high-tech products – markets in which the U.S. is highly competitive.
  - In telecommunications, China has agreed for the first time to allow direct foreign investment. It will also participate in the Basic Telecommunications Agreement, accepting pro-competition principles such as an independent regulatory authority and interconnection rights.
  - The Chinese market for a wide range of computer, internet and software services will be opened to American companies, either through Joint Ventures or direct service.

The opening of these sectors comes at the same time as the powerful revolution in information and communications technology is just beginning in China. There is an enormous potential for both increased American exports and the freer flow of information. American high technology exports to China grew 500 percent between 1990 and 1998.

China's telecommunications market is the world's fastest growing. By the end of this year, some analysts predict that China will become the world's second largest market in both telecommunications and personal computers. And last year, the number of Chinese Internet users quadrupled, from 2 million to 9 million. This year, it should more than double, to 20 million. No amount of censorship or monitoring can completely control this explosion of information. The President has compared it to trying to nail Jello to a wall.

In addition to this new access to China's markets, we will benefit from unprecedented provisions to protect American workers and farmers from import surges, unfair pricing, and abusive investment practices such as offsets or forced technology transfer. No agreement on WTO accession has ever contained stronger measures:

- **A “product-specific” safeguard** that allows us to take measures focused directly on China in case of an import surge that threatens a particular industry. This protection, which remains in effect for 12 years after accession, provides stronger and more targeted relief than our current Section 201 law.
- **Strong anti-dumping protections.** The agreement includes a provision recognizing that the U.S. may employ special methods, designed for non-market economies, to counteract dumping by Chinese exporters for 15 years after its accession.
- **Requiring China to eliminate barriers to U.S. companies that cost American jobs.** For the first time, Americans will have the means, accepted under the WTO rules, to combat such measures as forced technology transfer, mandated offsets, local content requirements and other practices intended to drain jobs and technology away from the U.S. Moreover, Chinese commitments to open up trading and distribution rights will allow American companies to export to China products made at home by American workers, rather than seeing companies forced to set up factories in China or go through Chinese government approved middlemen in order to sell products there.

We are already preparing for the most intensive enforcement and compliance effort ever mounted for a single trade agreement. The President has requested an additional \$22 million for new enforcement and compliance efforts, which will focus in large part on China. The Administration's aggressive monitoring and enforcement efforts will include the private sector, other WTO partners, and Congress. For the first time, China's compliance will be subject to multilateral enforcement under the WTO dispute settlement mechanism -- which will force China to comply with WTO rulings or be subject to trade sanctions. We want to work closely with Congress on this important issue.

The bottom line of this agreement is more U.S. exports to China, leading to more, high-paying jobs for American workers. All we have to do is vote PNTR, so we can get the full benefits of the agreement, just as our competitors will.

## **II. America's Stake in Promoting Successful Market Reform in China**

Second, WTO accession provides a powerful impetus for China's economic reforms at a critical juncture. It strengthens the hand of economic reformers in China and helps lock in their reform path. For economic, strategic, and humanitarian reasons, we have an enormous stake in the successful continuation of China's economic reforms.

China has come a long way since the beginnings of market reforms two decades ago. Yet China has already reaped the easy gains of its reforms to date and now faces the complex challenges of reforming its bloated state-owned enterprise sector and restructuring its troubled banks. Economic growth is slowing, but the labor force is increasing even faster.

But, as the President has said, the Chinese authorities face a dilemma: they realize that closer integration with the global economy risks unleashing forces that they cannot control. Opening China more fully to the revolution in communications and technology will provide ordinary Chinese with unprecedented freedom and access to information. But if China tries to shut its people off from international competition, integration, and information, it will not be able to attract the investment and know-how to build a modern economy and deliver rising living standards and stability for its 1.3 billion people.

Reformers at the highest levels of the Chinese government appear to be embracing the WTO's impetus for change through initiatives to prepare for the new competition. The central bank is preparing for opening the banking sector. And the government is opening parts of the economy previously considered strategically important to international and private investors, with individuals already dominating the Chinese Internet industry and also being allowed to take ownership stakes in domestic banks for the first time.

With WTO accession, China is locking into place a more rapid process of market opening and reform of its economy, and submitting itself to a global rules-based system. In my meetings with U.S. business representatives in Shanghai and Beijing, they told me the most important thing the U.S. government could do to help them was to promote the rule of law in China. WTO accession is the most powerful way of advancing this objective.

We have an enormous national stake in supporting China's decision for WTO accession and greater integration:

- It helps support faster growth in productivity and wages in China, leads to higher living standards for Chinese workers, and promotes higher demand for our products.
- It serves as a catalyst for broader changes that will help to promote core American interests and values. To thrive as a WTO member, China will need to become more market-based; more respectful of personal and commercial freedoms; and more open to the free flow of information and ideas.
- China's accession to the WTO will serve to promote the causes of human rights, workers' rights, and religious freedom, laying the groundwork for progress in the future. WTO

membership will further the development of the rule of law and the opening of China, which will advance our core values.

This will not happen overnight, however. In the meantime, the United States will remain continuously vigilant on human rights abuses in China, and we will continue to express our disapproval forcefully whenever rights are abused in China. The Administration already monitors the situation continuously and issues an annual report. We also will make continuing use of the UN and other international fora, working with countries that share our core values. But let's keep in mind that we have much more positive influence over China's behavior if we are actively engaged with China, rather than trying to isolate it.

Of course, we understand that Congress is concerned about these issues. Some Members of Congress have considered the annual review of China's NTR status a useful opportunity to review the human rights situation in that country, even though the connection is arguably tenuous. The Administration is committed to working with Congress to address concerns over granting PNTR, including opportunities to review China's rights record. I can assure you that we will work with Congress on this issue, considering constructive ideas that could garner broad, bipartisan support.

### **III. The Broader National Strategic Case for Supporting Greater Integration of China**

Third, and finally, PNTR advances our broader national interests by promoting a more responsible and constructive role for the Chinese state, both at home and abroad.

We cannot know where China will be in 20 years, or even 10 years, what its economy will be like, how it will treat its people, what its role in Asia and the world will be like. China will determine that. But we do know that they are more likely to be a responsible, reformist power if they are more integrated into the world economy.

A policy of welcoming China into the community of nations – rather than being a voice that keeps China out, even when it offers to live by the rules – is a policy that supports our deepest national security interests.

WTO membership will not only open Chinese markets, but will also provide China's people with an unprecedented opening to the outside world. For example, accelerating the information revolution, through greater international integration, improved telecommunications and wider internet access, can only help empower the Chinese people. As the President has pointed out, if the Internet has changed America, which is already an open society, imagine how much it could change China. The more open China is, the more likely it will play a positive role in the world.

By learning to play by the rules, both internationally and domestically, China will strengthen the rule of law, which will enable it to become a more reliable partner and a fairer society. It can even lay the groundwork for protection of core values in China, such as human rights, religious freedom, and workers rights.

We also have a vital strategic stake in China's continued economic progress and reform. Stagnation and disintegration would threaten China's stability. If we have learned anything in the last few years, from events in Russia and elsewhere, it is that the weaknesses of great nations can pose as big a challenge to the United States as their strengths.

We must not seek to cut China off from the economic and broader forces that are most likely to change it in the right direction. As the President has said, simply bringing China into the WTO does not guarantee that its government will take a responsible, constructive course. But it will lead the authorities to confront that choice sooner, and it will make stronger and more visible the imperative to make the right choice.

And that, along with the compelling commercial benefits and the need to support economic reform, is the imperative for us to make the right choice on PNTR and fully welcome China into the WTO.

#### **IV. Answering the Critics**

Opponents of PNTR and China's accession to the WTO have raised some important questions, which I would like to take the opportunity to address:

*Some opponents ask – Why do we need PNTR? Isn't the 1979 agreement enough?*

- I was in the Carter White House during the negotiation of the 1979 Agreement, and I can tell you that it falls far short of providing us with the full benefits of China joining the WTO, based on our November 1999 agreement with them. Although it was the best we could do at the time, the 1979 Agreement is a short, three-page document that provides for only limited rights and obligations, largely with respect to the treatment of goods for import.
- Reliance on the 1979 Agreement would deprive the United States of: virtually all market access provisions negotiated in November for services; meaningful market access for goods; key elements necessary to safeguard American workers from import surges and unfair trade from China; and special rules and vital enforcement rights like access to WTO dispute settlement.

*Some opponents ask – Are we not abandoning or turning our back on old friends in Taiwan by granting China PNTR and letting it into the WTO?*

- China PNTR and WTO accession in no way affects our commitments to Taiwan or our ability to back them up. In fact, Taiwan itself wants to see China in the WTO.
- Taiwan is also poised to join the WTO. A combination of Taiwan and PRC accessions to the WTO will create opportunities for Taiwan to increase its economic ties with the PRC, build trust and confidence through expanded trade and investment, and lower barriers to freer flow of ideas between the two sides of the Strait.

*Some opponents ask – Don't we lose leverage over the Chinese on human rights by granting PNTR and appearing to reward them despite their human rights record?*

- Fundamentally, we have much more positive influence over China's behavior if we are actively engaged with China, rather than trying to isolate it. This is true in a number of ways, including strengthening of the rule of law, providing freer access to information, and creating more economic freedom. We are not granting PNTR to reward China, but because it advances our national interests and values.
- Many human rights advocates have spoken out convincingly in favor of WTO accession. For example, Martin Lee, the leader of the Democracy Party of Hong Kong, has said, "The participation of China in the WTO would not only have economic and political benefits, but would also serve to bolster those who understand that the country must embrace the rule of law." A Chinese dissident, Ren Wandong, a leader of the 1978 Democracy Wall Movement, sees it as "a new beginning."

*Some opponents ask – Can't we just continue to grant China NTR status annually?*

- The answer is no. GATT Article I requires that all WTO members grant each other "any advantage, favor, privilege or immunity" provided to other countries "immediately and unconditionally." This requires *permanent* NTR at the time China joins the WTO. We cannot grant NTR through an annual or periodic renewal process and ensure that we get the full benefits of China's accession commitments. Our Asian, European and other competitors would reap the benefits, however.
- Even if this were a WTO-consistent option, which it is not, one must consider the uncertainty for American farmers, businesses, and workers that would have committed resources to developing customers in China. The possibility that within a certain period, the access on which they based their business plans would be withdrawn could frustrate any meaningful opportunities.

*Some opponents ask – China has never followed through on past commitments - why would they do anything different now? Are there concrete examples of successful compliance and enforcement with past agreements?*

- The WTO agreement is different from our bilateral agreements in two important respects -- the obligations that China has accepted are far more specific and detailed, and it is enforceable through the WTO dispute settlement process. The Administration will aggressively monitor and enforce this agreement, using WTO dispute settlement and the WTO's monitoring mechanism.
- We will commit the necessary resources to ensure Chinese compliance, and we are seeking new resources for the FY 2001 budget. Under President Clinton's proposal, the United States would dramatically increase the resources of agencies that monitor and ensure our trading partners' compliance with trade agreements.



- China's record of compliance is admittedly somewhat mixed. But vigorous enforcement of our bilateral agreements with China has resulted in significant improvements in intellectual property (IP) protection. Before our IP agreements in 1992 and 1995 and the enforcement action in 1996, China was one of the world's largest IP pirates. Today, China has improved its legal framework -- and it has substantially eliminated the illegal production and export of pirated music and video CDs and CD-ROMs.
- Generally, China has implemented its agreements most satisfactorily when its obligations were concrete, specific, and open to monitoring. Previous bilateral agreements have not adequately dealt with the range of barriers and trade-restrictive practices our exporters face in China. The November 1999 bilateral agreement has far more specificity in terms of well-defined commitments than we were able to achieve in earlier agreements.
- China's commitments are subject to the WTO's multilateral review and dispute settlement mechanism. The U.S. monitoring and enforcement efforts will be complemented and enhanced by the 134 other WTO Members with a common interest in seeing China's market opened.

*Some opponents ask – Why do we think this agreement will increase U.S. exports? Why should China be any different from Japan, which is in the WTO and where we still have difficulty distributing our goods and providing services?*

- China currently has high barriers to U.S. export. In our November agreement, China made broad commitments to eliminate both tariff and non-tariff barriers to American exports. On U.S. priority agricultural products, for example, tariffs will drop from an average of 31 percent to 14 percent by 2005. This improved access will eventually result in an increase of \$2 billion a year in our agricultural exports to China, according to USDA estimates. Industrial tariffs on U.S. products will fall from an average of 24.6 percent in 1997 to an average of 9.4 percent by 2005. A study by Goldman Sachs estimated that U.S. exports to China could increase by at least two-thirds by 2005.
- But China's commitments extend well beyond tariff reductions. For effective access, American companies, farmers and workers need the ability to export, import and distribute goods and services in China – these rights are currently denied, but they will be permitted under the agreement. It was in part because of our experience with Japan that we sought to ensure strong commitments on these trading and distribution rights.

*Some opponents ask – If the agreement is so one-sided, what does China get from it? How can it be in the interests of China and the U.S. at the same time?*

- In the last 20 years, China has made remarkable progress, but it faces daunting problems as well. China's economic growth has slowed just when it needs to create more jobs and maintain support for economic reform. For all the progress of China's reforms, private enterprise still accounts for less than one-third of its GDP. In other words, China cannot maintain stability or ensure prosperity by maintaining the status quo. The U.S. shares a

common interest with those in China's leadership who support reform. Continuing stability and economic growth in China supports America's security and economic interests.

*Some opponents ask – Won't China WTO accession just lead to more job losses in America?*

- China's accession to the WTO will lead to increases in U.S. exports, creating more high-paying jobs. But there will be no increased access for Chinese imports to the U.S. market, which might raise concerns over job losses. In fact, the unprecedented protections against import surges and dumping will provide effective recourse in those cases where Chinese trade practices might threaten job losses.
- China's commitments will also make it easier for our businesses to make their products with U.S. workers in America and sell their products themselves in China. New investment rules will prevent Chinese practices designed to force foreign companies to move production to China, like forced technology transfer or requirements for local content.

Thank you for the opportunity to present the compelling case for China's accession to the World Trade Organization and granting it Permanent Normal Trade Relations status. I look forward to working with this Committee and the Senate on this issue, and I would be happy to answer any questions that you may have.

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